



DEPARTMENT OF AGRICULTURAL ECONOMICS & RURAL SOCIOLOGY
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210

Department of Agricultural Economics and Rural Sociology
The Ohio State University
In Association with The Ohio Cooperative Extension Service

BUSINESS MANAGEMENT - SHORT COURSE

PRODUCERS LIVESTOCK ASSOCIATION

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by

Dr. Charles H. Ingraham
Extension Economist
Business Management

WHAT IS A COOPERATIVE?

A farmer cooperative is a business enterprise -- one organized, owned, and controlled by farmer members who have joined together voluntarily to provide themselves with needed supplies and/or services.

Cooperatives have long been a part of the American free enterprise system. They go back to Colonial days when neighbors helped each other clear land, build roads, and harvest crops. About 1810, farmers in Goshen, Conn., experimented with cooperative dairying and around 1900 there were 342 cooperative creameries in Ohio. Grain and livestock marketing cooperatives and farm supply purchasing associations soon followed.

There have, of course, been vast changes in the agricultural economy since those days and the focus of cooperatives has changed with the times.

Today's cooperatives perform a massive array of tasks for their members. They market about a fourth of U. S. farm products and help farmers obtain about a fifth of their supplies. And members add to their incomes and reduce their costs by use of this business tool. Other services cooperatives provide range from artificial breeding, soil testing, credit, irrigation, and insurance. Rural credit unions and rural telephone and electric cooperatives have helped farmers improve their living.

To accomplish these tasks, many small cooperatives have merged into larger local cooperatives to serve more members as community and trading areas have expanded. And many of these local cooperatives have joined together to form federated cooperatives such as Landmark.

Farmer cooperatives are chartered under State Laws and operate under the same federal and State business laws and regulations as other

firms. There are three basic principles that distinguish cooperatives from other types of corporate businesses:

1. Cooperatives provide goods and services to members at cost. Savings (or net margins) above costs are returned to patrons in proportion to their use of the cooperative.
2. Control of the cooperative is in the hands of its members. Traditionally, cooperatives operate on a one member - one vote basis. However, about 25 percent of the States permit cooperatives to allocate a limited number of votes according to the number of shares of stock a member holds or the extent of his patronage. In Ohio the laws say no member of a stock coop shall have more than 1/20 of the total votes. (1729.10-B-G)
3. Federal and State laws specify maximum interest rate of 8% that a cooperative may pay on stock. (1729.10 F) This is to keep ownership in the hands of its users rather than investors who are primarily interested in a profitable return on their investment.

Cooperatives are truly a part of our dynamic competitive economy.

A COOPERATIVE IS A BUSINESS

A cooperative is a business formed by a group of people to obtain certain services for themselves more effectively or more economically than they can obtain them individually. Cooperative members own, finance, and operate their business for their mutual benefit. Cooperative members draw up by-laws and other necessary legal papers. Members elect a board of directors. The board hires a manager and makes general policies. The manager runs the day-to-day business.

A COOPERATIVE DEFINED ¹

" A cooperative is a voluntary contractual organization of persons

¹ Cooperative Criteria, Service Report 71, Farmer Cooperative Service, February, 1965
PLA/6/3/72

having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operational risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as a member-user and not as investors in the capital structure of the cooperatives."

A cooperative is not an easy solution to all economic problems. A cooperative is a business operation. It must be organized, financed, and operated just as any other business on Main Street. A coop cannot assure that a farmer, upon joining, will immediately solve his problems; nor can a coop guarantee to turn a marginal farming operation into a successful commercial farming operation. A cooperative can not, in our competitive economy, continuously pay farmers the highest price for his produce or sell supplies at the lowest price.

When a cooperative is organized and goes into business it can increase competition and improve the service of the existing businesses dealing with farmers in the area served by the new cooperative. In our free competitive economy these new services, and any price advantages, are soon met by other businesses.

A member of a farmer cooperative must do business with his cooperative if he expects it to be successful. Far too often producers have used their marketing cooperative as a dumping ground for their low quality or excess products, and their supply cooperatives to provide service only. As a result, the cooperative has not been as successful as it could have been.

Even though it may continue to operate, it cannot achieve its potential if members do not use it as fully as possible.

AMERICAN FORMS OF BUSINESS

A Comparison

CHARACTERISTICS	TYPES OF BUSINESS ENTERPRISE			
	INDIVIDUAL	PARTNERSHIP	ORDINARY CORPORATION	COOPERATIVE CORPORATION
FUNCTIONS	To buy or produce goods for sale or to render service	Same as individual	Same as individual	To purchase supplies, market products or render needed services for members
OBJECTIVE	Profit for the individual owner	Profit for the partners	Profit for the investing stockholders	Profit for the members and patrons, by returning profits to users or owners
USERS	The public	The public	The public	Members and/or patrons
OWNERSHIP AND CONTROL	The individual	The partners	The investors	Members--usually one vote each
MANAGEMENT	The individual	The partners	Board of Directors	Board of Directors
LEGAL STATUS	Usually unincorporated	Legal agreement between associates under State law	Incorporated under State law	Incorporated under specific State law
LIABILITY	Assets of the individual	Assets of the partners	Assets of the corporation	Assets of the cooperative corporation
RETURN ON CAPITAL INVESTED	Unlimited	Unlimited	Unlimited	Limited by law 8%
WHO GETS NET PROCEEDS?	The individual	The partners	The stockholders	The patrons in proportion to use

Cooperatives

(Agricultural Associations)

1729.01 Terms used in section governing agricultural cooperatives.

In sections 1729.01 to 1729.27, inclusive, of the Revised Code:

(A) "Agricultural products" includes horticultural, viticultural, forestry, dairy, livestock, poultry, bee and farm products:

(B) "Association" means any corporation organized under sections 1729.01 to 1729.27, inclusive, of the Revised Code:

(C) "Member" includes actual members of associations without capital stock and holders of common stock in associations organized with capital stock:

(D) "Person" includes individuals, firms, partnerships, corporations, and associations.

Associations shall be deemed non-profit, inasmuch as they are not organized to make profit for themselves as such, or for their members as such, but only for their members as producers.

1729.02 Purposes

An association may be organized to engage in any activity in connection with the marketing or selling of the agricultural products of its members, with the harvesting, preserving, drying, processing, canning, packing, grading, storing, handling, shipping, or utilization of such products, or with the manufacturing or marketing of the by-products of such products; to engage in any activity in connection with the manufacturing, selling, or supplying to its members of machinery, equipment, or supplies of any kind; to engage in services in connection with activities authorized by sections 1729.01 to 1729.27, inclusive, of the Revised Code; or to engage in the financing of the activities enumerated in this section. Such association may be organized to engage in any one or more of such activities, but this section does not authorize any professional services otherwise prohibited by law.

1729.03 Powers

Each association incorporated under sections 1729.01 to 1729.27, inclusive, of the Revised Code shall have the following powers:

(A) It may engage in any activity in connection with the marketing, selling, preserving, harvesting, drying, processing, manufacturing, canning, packing, grading, storing, handling, or utilization on any agricultural products produced or delivered to it by its members or others, or with the manufacturing or marketing of the by-products of such products; any activities in connection with the purchase, sale, hiring, or use by its members or others, of supplies, machinery, or equipment of any kind; may engage in services in connection with any activities authorized by sections 1729.01 to 1729.27, inclusive, of the Revised Code, or may engage in the financing of such activities. Such association may engage in any one or more of the activities specified in this section but this section does not authorize any professional services otherwise prohibited by law.

Cooperative Marketing Act of the State of Ohio Chapter 1729

Otherwise known as
Senate Bill 286, Session of 1923 Legislature
"Green-Farnsworth Law"

Charles H. Ingraham
Department of Agricultural Economics
and Rural Sociology
Cooperative Extension Service
Ohio State University

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Any such association may limit its activities to the handling or the marketing of products of its own members, except for storage. If it handles the products of non-members, the total of such non-members' products handled by it in any fiscal year must not exceed the total of similar products handled by the association for its own members during the same period.

(B) It may borrow money without limitation as to amount of corporate indebtedness or liability except in the case of associations organized with capital stock and may make advance payments and other advances to members or others.

(C) It may act as the agent or representative of any members in any of the activities mentioned in divisions (A) and (B) of this section.

(D) It may purchase, otherwise acquire, hold, own, exercise all rights of ownership in, sell, transfer, pledge, guarantee the payment of dividends or interest in, or guarantee the retirement or redemption of shares of capital stock or bonds of any corporation or association engaged in any activity directly related to the association's own authorized activities or in the warehousing, handling, or marketing of any of the products handled by the association.

(E) It may establish reserves and invest the funds thereof in bonds or in such other property as is provided in the by-laws.

(F) It may buy, hold, and exercise all privileges of ownership over such real or personal property as is necessary, convenient, or incidental to the conduct of any authorized business of the association.

(G) It may establish, secure, own, and develop patents, trademarks, and copyrights.

(H) It may do everything necessary, suitable, or proper for the accomplishment of any of the purposes enumerated in this section, or conducive to or expedient for the interest or benefit of the association, and may contract accordingly. In addition it may exercise and possess all powers, rights, and privileges necessary or incidental to the purposes for which the association is organized or to the activities in which it is engaged, and also any other powers, rights, and privileges granted to ordinary corporations by the laws of this state, except such as are inconsistent with the express provisions of sections 1729.01 to 1729.27, inclusive, of the Revised Code; and it may do any such thing anywhere.

1729.04 Use of word "Cooperative"

No person, firm, corporation, or association organized or applying to do business in this state on or after July 17, 1923, as a farmers' marketing association for the sale of farm products shall use the word "cooperative" as a part of its corporate or other business name or title, unless it has complied with sections 1729.01 to 1729.27, inclusive, of the Revised Code.

1729.05 Number of incorporators

Five or more persons, a majority of whom are residents of this state and engaged in the production of agricultural products, may form a non-profit cooperative association with or without capital stock, under sections 1729.01 to 1729.27, inclusive, of the Revised Code.

1729.06 Articles of incorporation

Each association must prepare and file articles of incorporation which set forth:

(A) The name of the association;

(B) The purpose for which it is formed;

(C) The place where its principal business will be transacted;

(D) The number of its directors, which must be not less than five; the terms of office for such directors; and the names and addresses of those who are to serve as directors, either for the first term or until the election and qualifications of their successors, or both;

(E) If the association is organized without capital stock, whether the property rights and interests of all members are to be equal or unequal; if unequal, the general rules applicable to all members by which the property rights and interests of each member are to be determined; and provision for the admission of new members entitled to share in the property of the association with the old members, in accordance with such general rules, which provision shall not be altered, amended, or repealed except by the written consent or vote of two-thirds of the members;

(F) If the association is organized with capital stock, the amount of such stock, the number of shares into which it is divided, and the par value per share; and if the capital stock is divided into preferred and common stock, a statement of the number of shares of stock to which preference is granted, the number of shares of stock to which no preference is granted, and the nature and definite extent of the preferences and privileges granted to each.

The articles must be subscribed by the incorporators and acknowledged by them before an officer authorized by law to take and certify acknowledgements of deeds and conveyances, and shall be filed in accordance with sections 1701.01 to 1702.58, inclusive, of the Revised Code. When so filed, said articles of incorporation, or certified copies thereof, shall be received in all the courts of this state as prima-facie evidence of the facts contained in them and of the due incorporation of such association.

1729.07 Amendment

The articles of incorporation of an association may be altered or amended at any regular meeting of the association or at any special meeting called for that purpose. An amendment must first be approved by two-thirds of the directors and must then be adopted by a vote representing a majority of all the members of the association. Amendments to the articles of incorporation, when so adopted, shall be filed in accordance with sections 1701.01 to 1702.58, inclusive, of the Revised Code.

1729.08 Filing fees

For filing articles of incorporation or amendments thereto, and with respect to the issuance of shares of stock, an association organized under sections 1729.01 to 1729.28, inclusive, of the Revised Code, shall pay to the secretary of state the fees imposed by section 111.16 of the Revised Code upon corporations organized for profit.

1729.09 Membership limited

(A) Under the terms prescribed in the by-laws adopted by it, an association may admit as members, or issue common stock to, only cooperative marketing associations or persons engaged in the production of agricultural products for the market, including the lessees and ten-

ants of land used for the production of such products and any lessors and landlords of such land who receive as rent any of the crop raised on the leased premises.

(B) If a member of a nonstock association is not a natural person, such member may be represented by any individual, associate, officer, manager, or member, if such representation is authorized in writing.

(C) Any association organized under sections 1729.01 to 1729.27, inclusive, of the Revised Code, may become a member or stockholder of any other association organized under such sections.

1729.10 Membership, stock ownership, individual liability

(A) When a member of an association established without capital stock has paid his membership fee in full, he shall receive a certificate of membership from the association.

(B) No association shall issue stock to a member until it has been fully paid for. The promissory notes of the members may be accepted by the association as full or partial payment for stock. The association shall hold the stock as security for the payment of the note; but such retention as security shall not affect the member's right to vote.

(C) No member shall be liable for the debts of the association to an amount exceeding the sum remaining unpaid on his membership fee or on his subscription to the capital stock, including any unpaid balance on any promissory notes given in payment of such membership fee or subscription.

(D) The directors of the association shall be liable ~~only~~ as members of the association.

(E) No stockholder of the association shall own more ~~than~~ one-twentieth of its common stock, and the association in its by-laws may limit the amount of common stock which one member may own to any amount less than one-twentieth.

(F) The association shall limit its dividends on stock to any amount not greater than eight percent per annum; and all its other net income, less specified reserves which shall be provided for in the by-laws, shall be distributed to its members only on the basis of patronage. Any receipts or dividends from subsidiary corporations, or from stock or other securities owned by the association, shall be included in the ordinary receipts of the association, and shall be distributed accordingly.

(G) No member in any such association organized without capital stock shall be entitled to more than one vote.

(H) Any such association organized with stock may issue preferred stock which does not have the right to vote. Such stock may be sold to any person and may be redeemable or retirable by the association on such terms as are provided for by the articles of incorporation and printed on the face of the certificate.

(I) The by-laws shall prohibit the transfer of the common stock of the association to persons not engaged in the production of the agricultural products for the market; and such restrictions must be printed upon every certificate of stock subject to them.

(J) The association may, at any time specified in the by-laws, except when the debts of the association exceed fifty percent of its assets, purchase its own common stock at the book value of such stock, as determined by the board of directors, and pay for it in cash within one year thereafter.

1729.11 By-laws

Each association must, within thirty days after its incorporation, adopt for its government and management a code of by-laws not inconsistent with the powers granted by sections 1729.01 to 1729.27, inclusive, of the Revised Code. The vote or written assent of a majority of the members is necessary to adopt such by-laws. The by-laws shall provide that they may be amended and shall specify the voting power by which amendments may be made. It may also provide for any of the following matters:

(A) The time, place, and manner of calling and conducting the association's meetings;

(B) The number of members constituting a quorum;

(C) The right of members to vote by proxy or by mail, or both, and the conditions, manner, form, and effect of such votes;

(D) The number of directors constituting a quorum;

(E) The qualifications, compensation, duties, and terms of office of directors and officers, and the time of their election and the manner giving notice thereof;

(F) Penalties for violation of the by-laws;

(G) The amounts of entrance, organization, and membership fees, if any; the manner of collecting them; and the purposes for which they may be used;

(H) Any amount which each member is to be required to pay annually or from time to time to carry on the business of the association; any charge to be paid by each member for services rendered by the association to him, and the time of payment and the manner of collection of such charge, and any marketing contract between the association and its members which every member may be required to sign;

(I) The number and qualifications of members of the association and the conditions precedent to membership or to ownership of common stock therein; the time and manner of permitting members to withdraw or the holders of common stock to transfer their stock; the manner of assignment and transfer of the interests of members and of the shares of common stock; the conditions upon which and the time when the membership of any member shall cease; the suspension of the rights of a member when he ceases to be eligible to membership in the association; the manner and effect of the expulsion of a member; and the manner of determining the value of a member's interest, and provision for its purchase by the association, upon the death or withdrawal of a member or upon the expulsion of a member or the forfeiture of his membership, or, at the option of the association, provision for such purchase at a price fixed by appraisal by the board of directors; but in case of the withdrawal or expulsion of a member, the appraisal of his property interests in the association and the fixing of the amount thereof in money shall be done equitably by such board, and such amount shall be paid to him within one year after such expulsion or withdrawal;

(J) Any other provision for any matter relative to the control, regulation, operation, management, or government of the association.

1729.12 Meetings of members or stockholders

In its by-laws, each association shall provide for one or more regular meetings annually. The board of directors may call a special meeting at any time. Ten percent of the members or stockholders may file a petition stating the specific business to be brought before the association,

and demand a special meeting for such business, at any time, and such meetings must thereupon be called by the board. Notice of every meeting, together with a statement of the purpose thereof shall be mailed to each member at least ten days prior to the meeting, unless the by-laws require that such notice may be given by publication in a newspaper of general circulation, published at the principal place of business of the association.

1729.13 Board of Directors

The affairs of an association shall be managed by a board of not less than five directors, elected by the members from their own number. The by-laws may provide that the territory in which the association has members shall be divided into districts and that the directors shall be elected according to such districts either directly or by district delegates elected by the members in each district. In such a case the by-laws shall specify the numbers of directors to be elected by each district and the manner of reapportioning the directors and of redistricting the territory covered by the association, and may provide that primary elections shall be held in each district to elect the directors apportioned to such districts and that the result of all such primary elections may be ratified by the next regular meeting of the association or may be considered final as to the association. The by-laws may provide that one or more directors may be appointed by any public official or commission or by other directors selected by the members or their delegates. Such directors shall represent primarily the interest of the general public in such associations, and need not be members of the association, but shall have the same powers and rights as other directors. Such directors shall not number more than one-fifth of the entire number of directors.

The association may provide a fair remuneration for the time actually spent by its officers and directors in its service, and for the services of the members of its executive committee. No director of the association, during the term of his office, shall be a party to a contract for profit with the association differing in any way from the business relations accorded regular members or holders of common stock of the association or others, or differing from terms generally current in that district.

The by-laws may provide that no director shall occupy any officer's position in the association except that of president and secretary or either, on regular salary or substantially full-time pay.

The by-laws may provide for an executive committee and may allot to such committee all the functions and powers of the board, subject to the general direction and control of the board.

When a vacancy on the board occurs other than by expiration of term, the remaining members of the board, by a majority vote, shall elect a director to fill the vacancy, unless the by-laws provide for an election of directors by district in which case the board shall immediately call a special meeting of the members or stockholders in that district to fill the vacancy.

1729.14 Officers

The directors of an association shall elect from their number a president and one or more vice-presidents. They shall also elect a secretary and a treasurer, who need not be directors or members of the association; and they may combine the two offices and designate

the combined office as that of secretary-treasurer, or unite both functions and titles in one person. The treasurer may be a bank or any depository and as such, shall not be considered as an officer, but as a function of the board of directors, and the secretary shall perform the usual accounting duties of the treasurer, but the funds of the association shall be deposited only as and where authorized by the board.

1729.15 Bonds of officials

Every officer, employee, and agent handling funds, negotiable instruments or other property of or for an association shall execute and deliver adequate bonds for the faithful performance of his duties and obligations.

1729.16 Removal of officers or directors

Any member of an association may bring charges against an officer or director of the association by filing them in writing with the secretary of the association together with the petition, signed by five percent of members, requesting the removal of the officer or director in question. The removal shall be voted upon at the next regular or special meeting of the association and, by a vote of a majority of the members, the association may remove the officer or director and fill the vacancy. The director or officer against whom such charges are brought shall be informed in writing of the charges previous to the meeting and shall have an opportunity at the meeting to be heard in person or by counsel and to present witnesses and the persons bringing the charges against him shall have the same opportunity.

In case the by-laws provide for the election of directors by districts with primary elections in each district, then the petition for removal of a director must be signed by twenty percent of the members residing in the district from which he was elected. The board of directors shall then call a special meeting of the members residing in that district to consider the removal of the director and at such meeting, by a vote of the majority of the members of that district, the director in question shall be removed from office.

1729.17 Actions of director reviewed by members

Upon demand of one-third of the entire board of directors of an association, made and recorded immediately at the same meeting at which the original motion was passed, any matter of policy that has been approved or passed upon by the board must be referred to the entire membership of the association for decision at the association's next special or regular meeting; and a special meeting may be called for this purpose.

(Marketing)

1729.18 Marketing Contracts

An association and its members may make marketing contracts, requiring the members to sell, for any period of time not over ten years, all or any specified part of their agricultural products or specified commodities exclusively to or through the association or to or through facilities to be created by the association. The contract may provide, among other things, that the association may sell or resell the products delivered to it by its members, with or without taking title thereto, and pay over

to its members the resell price, after deducting all necessary selling, overhead, and other costs, such as interest or dividends on stock not exceeding eight percent per annum, reserves for retiring stock, and any other proper reserves, and any other deductions.

The by-laws or the marketing contract may fix, as liquidated damages, specific reasonable sums to be paid by the members to the association upon the breach by them of the marketing contract in regard to the sale, delivery, or withholding of products, and may further provide that the member may pay all costs, premiums for bonds, expenses, and fees, in case any action is brought upon the contract by the association. Such provisions shall be enforceable in the courts of this state and such provisions for liquidated damages shall be enforceable as such and shall not be regarded as penalties.

(Amended Senate Bill No. 60)

Be it enacted by the General Assembly of the State of Ohio:

SECTION 1. That sections 1729.181 and 1729.99 of the Revised Code be enacted to read as follows:

Sec. 1729.181 (A) No processor, handler, distributor, dealer, or agent thereof who purchases or contracts to purchase milk, fruits, vegetables, sweet corn, or other canning crops from producers of such raw agricultural products shall:

(1) Use duress against, coerce, or boycott producers of raw agricultural products in the exercise of their rights to join and belong to cooperative agricultural marketing associations;

(2) Discriminate against producers of raw agricultural products with respect to price, quantity, or quality, or other terms of purchase of raw agricultural products, solely by reason of the producer's membership in or marketing contract with cooperative agricultural marketing associations.

(B) For the purpose of enforcing section 1729.181 of the Revised Code, the director of agriculture may receive sworn complaints from affected producers of raw agricultural products or the cooperative agricultural marketing association of which such producers are members, or with whom they have a marketing contract, with respect to violations or threatened violations of such section. The director may make all necessary investigations, examinations, or inspections of any violation or threatened violation specified in the sworn complaint filed with him under this division.

(C) The director may, after receiving a sworn complaint and the holding of an informal hearing on the charges made in such complaint, bring an action to enjoin the violation of any of the provisions of section 1729.181 of the Revised Code as set forth in such complaint in the court of common pleas of the county in which such violation occurred. A summons in such action against any defendant shall be issued to the sheriff of any county within this state in which such defendant resides or may be served as in other civil actions. Actions against different defendants may be consolidated, in the discretion of the court, if the alleged violations are of the same provision, have occurred in the same or an adjoining county, relate to the same agricultural product, occurred in the same production season, and such consolidation can be made without prejudice to a substantial right of any defendant.

Nothing in this section shall be interpreted in any way to affect the rights of a producer of raw agricul-

tural products, who has not signed a contract with a cooperative agricultural marketing association, to bargain for his crop individually with any processor. A processor may, but shall not be required to, bargain for any of his raw agricultural product requirements with any cooperative agricultural marketing association or associations. The inability of a processor or his refusal to meet the terms and conditions of any cooperative agricultural marketing association proposed contract shall not be interpreted as a boycott or discrimination against the cooperative agricultural marketing association or its members.

Sec. 1729.99. Whoever violated section 1729.181 of the Revised Code shall be fined not less than fifty nor more than five hundred dollars for each offense.

1729.19 Cooperation Contracts

An association may, upon resolution of its board of directors enter into all necessary and proper contracts, and make all necessary and proper stipulations and arrangements, with any other cooperative corporation or association formed in this or any other state, for the cooperative or more economical carrying on of any of its business. Any two or more of such associations may, by agreement between them, unite in employing or separately employ the same personnel, methods, means, and agencies for carrying on their respective businesses. Such associations, acting singly or collectively, may meet in conference with two or more purchasers of their products who are acting collectively, and may at such conference fix by agreement the prices to be paid by such purchasers to the association or associations for such products. Such agreements are subject to section 1729.20 of the Revised Code. Such concerted action by such purchasers is not a contract in restraint of trade.

1729.20 Associations and Agreements not in restraint of trade

An association complying with sections 1729.01 to 1729.27, inclusive, of the Revised Code, is not a conspiracy, a combination in restraint of trade, an illegal monopoly, or an attempt to lessen competition or to fix prices arbitrarily; and the marketing contracts between such an association and its members, or any other agreements authorized in such sections, are not illegal as such in unlawful restraint of trade, or part of a conspiracy or combination to accomplish an improper or illegal purpose.

1729.21 Payment for purchase in preferred stock

If an association, organized with preferred capital stock, purchases the stock of, any property of, or any interest in any property of any person, it may discharge the obligations so incurred wholly or in part by exchanging, for the acquired interest, shares of its preferred capital stock to an amount which at par value would equal the fair market value of such acquired interest, as such fair market value is determined by the board of directors. The transfer to the association of the interest so purchased is equivalent to payment in cash for the shares of stock so issued.

1729.22 Membership in other corporations

An association may organize, form, operate, own control, have an interest in, own stock of, or be a member

of any other corporations engaged in preserving, drying, processing, canning, packing, storing, handling, shipping, utilizing, manufacturing, marketing, or selling the agricultural products handled by the association or the by-products of such products.

If such other corporations are warehousing corporations, they may issue legal warehouse receipts to the association or to any other person against commodities delivered to them, and such legal warehouse receipts shall be considered an adequate collateral to the extent of the usual and current value of the commodity represented by them.

1729.23 Exemptions

Any law which is in conflict with sections 1729.01 to 1729.27, inclusive, of the Revised Code, shall be construed as not applying to the associations provided for in such sections.

Any exemptions under any law applying to agricultural products in the possession or under the control of the individual producer shall also apply to such products delivered by its farmer members, as long as such products are in the possession or under the control of the association.

1729.24 Annual Reports

Each association shall prepare and file with the director of agriculture, on forms to be furnished by him, an annual report containing the name of the association; its principal place of business; a general statement of its business operations during the fiscal year, showing the amount of capital stock paid up and the number of stockholders, if it is a stock association, or the number of members and amount of membership fees received, if it is a nonstock association; the total expenses of such operations; the amount of its indebtedness or liabilities; and its balance sheets for such fiscal year.

1729.25 Foreign Agricultural Cooperatives

Any corporation or association organized under laws of another state that are generally similar to sections 1729.01 to 1729.27, inclusive, of the Revised Code, may carry on any proper activities in this state upon compliance with the general regulations applicable to foreign corporations desiring to do business in this state. All contracts which could be made by any association incorporated under such sections, that are made by or with such foreign associations, shall be enforceable in this state with all of the remedies set forth in such sections.

1729.26 Associations organized and contracts made before July 17, 1923

Any association organized under statutes in existence before July 17, 1923, may, by a majority vote of its mem-

bers, be brought under sections 1729.01 to 1729.27, inclusive, of the Revised Code, through the limitation of its membership and the adoption of other restrictions as provided in such sections. Upon such vote it shall make out in duplicate a statement, signed and sworn to by its directors, to the effect that the association has, by a majority vote of the members, decided to accept the benefits of, and to be bound by, sections 1729.01 to 1729.27, inclusive, of the Revised Code, and has authorized all changes accordingly. Articles of incorporation shall be filed as required in section 1729.06 of the Revised Code, except that they shall be signed by those who are, at the time of filing, members of the board of directors. The filing fee shall be the same as for filing an amendment to articles of incorporation.

When any association can be incorporated under sections 1729.01 to 1729.27, inclusive, of the Revised Code, all contracts made by or on behalf of such association before July 17, 1923, by its promoters in anticipation of its becoming incorporated under the laws of this state, whether or not such contracts were made by or in the name of some corporation organized under the laws of another jurisdiction, are hereby validated as if made after July 17, 1923, if they could be entered into under sections 1729.01 to 1729.27, inclusive, of the Revised Code.

1729.27 General corporation laws apply

Sections 1701.01 to 1702.58, inclusive, of the Revised Code, and all powers and rights under such sections, apply to an association organized under sections 1729.01 to 1729.27, inclusive, of the Revised Code, except where sections 1701.01 to 1702.58, inclusive, of the Revised Code, are in conflict with sections 1729.01 to 1729.27, inclusive, of the Revised Code.

1729.28 Consumers' cooperatives

An association incorporated for the purpose of purchasing, in quantity, grain, goods, groceries, fruits, vegetables, provisions, or any other articles of merchandise, and distributing them to consumers at the actual cost of purchasing, holding, and distribution, may employ its capital in the purchase of such merchandise as it desires, and in the purchase or lease of such real and personal estate, subject always to the control of the stockholders, as is necessary or convenient for purposes connected with its business.

Such association may adopt such plan of distribution of its purchases among its stockholders and others as is most convenient and best adapted to secure its proposed ends. Profits arising from the business may be divided among the stockholders from time to time, as the association deems expedient, in proportion to the several amounts of their respective purchases.

UNITED STATES CAPPER VOLSTEAD ACT
An Act to Authorize Association of Producers of Agricultural Products

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged.

Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes; Provided, however, That such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum.

And in any case to the following:

Third. That the association shall not deal in the products of non-members to an amount greater in value than such as are handled by it for members.

Section 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that respect, to which complaint shall be attached, or contained therein, a notice of hearing, specifying a day and place not less than thirty days after the service thereof, requiring the association to show cause why an order should not be made directing it to cease and desist from monopolization or restraint of trade.

An association so complained of may at the time and place so fixed show cause why such order should not be entered. The evidence given on such a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to writing, and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is unduly enhanced thereby, he shall issue and cause to be served upon the association an order reciting the facts found by him, directing such association to cease and desist from monopolization or restraint of trade.

On the request of such association or if such association fails or neglects for thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in which such association has its principal place of business a certified copy of the order and of all the records in the proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the enforcement of such order. After the order is so filed in such district court and while pending for review therein, the court may issue a temporary writ of injunction forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying on its business, or on any attorney authorized to appear in such proceeding for such association, and such service shall be binding upon such association, the officers, and members thereof.

Approved, February 18, 1922

PLA/6/3/72

THE ORGANIZING FUNCTION OF MANAGEMENT

Organizing supplies the means for people to work together effectively to accomplish objectives.

Organizing is necessary to unite people, facilities and equipment in interrelated tasks.

Organization brings together in an orderly fashion human and material resources necessary to produce economic goods and services.

Organization is necessary to formulate the efforts of the work group, establish the efforts of the work group and establish a proper pattern in order that human resources and material resource may be effectively combined.

Organization is essential to managing.

Managers cannot function as managers without organization.

The organization process begins with objectives. Objectives are the values the firm seeks to achieve.

With the objectives in mind, the manager must determine the work necessary to achieve them.

The work must be divided into the simplest tasks. These tasks must then be assigned to people. These tasks are then grouped into administrative units.

Organization is required whenever two or more people find it desirable to combine their efforts to achieve a mutual goal. For example, to load heavy supplies on a customer's truck, two men would agree -- you take that side and I will take this side -- "Let's lift together at the count of three." By organizing their efforts these two men are able to do the task more efficiently.

Organization involves the development and establishment of authority relationships and the coordination among those with authority regardless of their position in the firm.

To contribute toward the effective accomplishment of objectives each person in the firm must know:

1. the firm's objective
2. the firm's goal
3. policies
4. rules
5. his specific task
6. to whom he is responsible and accountable
7. his authority

8. who is responsible to him
9. the make-up of the entire work group
10. his relationship to all members of the work group
11. his place in the work group
12. the objectives of his work group
13. the proper channels of communication
14. the requirements of his job
15. the limitation of his job.

THE MANAGEMENT FUNCTION OF ORGANIZING IS: the grouping of activities

the grouping of activities and the structural arrangement of persons, facilities, and equipment and the allocation of authority and responsibility.

When the planning function has been completed, resources, human and material, must be assembled to carry out the plans. Personnel must be hired, facilities and equipment procured, and a system established to perform the business services intended.

It is obvious that the kind of grouping and arrangement of resources is vital to a successful business.

As the business grows larger and its activities become more complex, organization becomes even more important.

We can find in the Book of Exodus one of the earliest accounts of organization. Exodus, Chapter 18, Verses 13-27:

"And it came to pass on the morrow, that Moses sat to judge the people; and the people stood by Moses from the morning until the evening."

"And when Moses' father-in-law saw all that he did to the people, he said, 'What is this thing that thou doest to the people? Why sittest thou thyself alone, and all the people stand by thee from morning unto even?' "

"And Moses said unto his father-in-law, 'because people come unto me to inquire of God;' "

"When they have a matter, they come unto me; and I judge between one and another, and I do make them know the statutes of God, and his laws."

"And Moses' father-in-law said unto him, 'the thing that thou doest is not good.' "

"Thou wilt surely wear away, both thou, and this people that is with thee: for this thing is too heavy for thee; thou art not able to perform it thyself alone."

"Hearken now unto my voice, I will give thee counsel and God shall be with thee: Be thou for the people to Godward, that thou mayest bring the causes unto God:"

"And thou shalt teach them ordinance and law, and thou shall show them the way wherein they must walk, and the work that they must do."

"Moreover, thou shalt provide out of all the people able men, such as fear God, men of truth, hating covetousness; and place such over them, to be rulers of thousands, and rulers of hundreds, rulers of fifties, and rulers of tens:"

"And let them judge the people at all seasons: and it shall be, that every great matter they shall bring unto thee but every small matter they shall judge: so shall it be easier for thyself, and they shall bear the burden with thee."

"If thou shalt do this thing, and God command thee so, then thou shalt be able to endure, and all this people shall also go to their place in peace."

"So Moses hearkened to the voice of his father-in-law, and did all that he had said."

"And Moses chose able men out of all Israel, and made them heads over the people, rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens."

"And they judged the people at all seasons: the hard causes they brought to Moses, but every small matter they judged themselves."

"And Moses let his father-in-law depart; and he went his way unto his own land." 1/

The Israelites had made little progress in their journey toward the Promised Land prior to their becoming organized. In the year following their reorganization they made more progress than they had made in the thirty-nine preceeding years.

This early account of management organization and the results that can be achieved by organization planning emphasizes that organization is not an end in itself but a means to an end.

Once the objective of the group has been determined, organization enables us to:

1. determine what must be done to reach our objectives or goals
2. divide those activities necessary to obtain the objective and goals into segments small enough to be performed by one person
3. provide a means of coordination so that there is not wasted resources in the pursuit of the objective.

1. The Bible, Exodus, Chapter 18, Verses 13-27.

PRINCIPLES OF ORGANIZATION

The following principles are important to the function of organization:

Specialization: Insofar as possible, the work of each person should be assigned to a single function.

Unity of Direction: There should be one head and one plan for each group of activities having a common objective.

Unity of Command: Each person should receive instruction from only one superior and be accountable only to him. The rationale of this principle is that when a person receives orders from more than one boss, he is likely to become confused about what he should do, since the orders may occasionally conflict. Also, if a superior skips a level in issuing his instructions, the man in the middle will be ignorant of what is being done and why.

Authority and responsibility should be equal: That is, if a man is held responsible for certain results, he should be given sufficient authority to achieve them. If a man has the authority to take action, he should be willing to accept responsibility for the results.

Delegation: Each decision should be delegated to the lowest competent level; that is, the lowest point of the organization where the person assigned the position can be expected to be aware of all the factors pertinent to the decisions and equally aware of the results of which he is judged and will accept all the consequences. A corollary to the delegation principle is that the superior is always accountable for results of a decision he has delegated, as it is a part of his responsibility to determine who is competent to make a given decision.

The Span of Control: This principle states that a superior should not have more than a specific number of subordinates, variously stated as four to six to eight, if his work is interrelated.

Short chain of command: A chain of command should exist in practically all business organizations and many other types of organizations as well. There should be a hierarchy of jobs in the line of authority running from the chief executive to his immediate subordinate and so on to each member of the rank and file.

SOME OF THE ADVANTAGES OF SYSTEMATIC ORGANIZATION PLANNING AND THE ORDERLY COORDINATION OF HUMAN ENDEAVOR ARE THAT THEY:

1. Makes up for deficiencies in leadership by furnishing the structure through which available abilities can be effectively harnessed.
2. Increases managerial efficiency and lessens the time spent in group meetings to determine who has the authority to do what.
3. A heavy burden is removed from the manager when subordinates understand their responsibility, authority, and relationships.
4. Planning the organizational structure determines personnel needs for the future and indicates the need for training programs to meet them.
5. Creates flexibility, anticipates and stimulates the desire for cooperation.

Questions:

Draw the organizational structure of your firm.

What is your authority in your firm?

To whom are you accountable?

COMMUNICATIONS WITHIN ORGANIZATIONS

There are four social processes within any organization. These four processes are competition, conflict, cooperation and communication. It should be pointed out that, at any given time interactions are taking place between two or more individuals, the process of communication is always involved and at least one of the other three processes. Most organizations are blessed with an abundant supply of competition and conflict, but often have large deficits of cooperation.

Competition appears to be a universal element of human behavior. We certainly recognize that it is one of the basic foundations of the American political and economic systems. Competition is considered good in our society. Inherent in the process of competition is the notion of "fair tactics." That is, a set of rules with which most of us agree that within this range, competitive behavior is acceptable. For example, in athletic competition we suggest that it should stay within the bounds of good sportsmanship. Often, however, because of our own selfishness, ignorance or limited vision we overstep the rules of fair conduct in competition. All is not fair in love or war. Some things are and some are not. When they are not, the process of competition often changes to the process of conflict.

Our society also has rules about conflict. These range all the way from individual differences to a state of war. As in all conflict, who wins what is often in question. We are familiar with conflictual situations where everyone loses. This is often the case between individuals and departments where over zealous competition results in outright conflict. Often both individuals or groups lose whatever it is they are seeking.

The third social process is cooperation. A group, a community or a society cannot survive with only the processes of competition and conflict in existence. Cooperation is necessary for an organization to maintain itself through time. It is also necessary if an organization is to grow and make progress.

There are undoubtedly many reasons or causes why individuals and departments (units) fail to cooperate. Probably the greatest cause is mistrust. Mistrusts often develop through events where competition erupts into conflict. This is true at all levels of human interaction. For example, the relationships of the U. S. and Russia. The U. S. did not recognize Russia diplomatically for some years after the Russian Revolution. Yet, a few years later we were allies in World War II. Since then we have had a hot and cold relationship. We still mistrust each others actions and intentions.

Ohio and Michigan cooperate in many ways. We compete for the automobile industry and periodically have conflict over a tract of land in the vicinity of Toledo.

Communities compete also. They compete in athletics, industry location, location of schools, etc.

Organizations like communities, states and nations, compete, have conflict and, at times cooperate.

People do not forget past events. Once they develop mistrust, it often takes generations to erase. For example, a family may dislike another family in the community in which they live. They may not know why they dislike this family. By accident, while doing a family history, they discovered that their grandfather had a lawsuit with the family in question. The animosity that developed between the families stemmed from an incident 75 years before. Organizations are no different. People feel there are plenty of reasons for distrusting their sister departments or organizations.

Conflict and the lack of cooperation between individuals and departments is often a result of misunderstanding brought about through the accompanying process of communication. Communication may be faulty, accurate, or simply non-existent.

Communications can help in finding ways to reduce the mistrust accompanying lack of cooperation between communities.

Dr. Elton Mays of Harvard University has this to say about communication; "Communications between individuals and between groups is, beyond all doubt, the outstanding defect that civilization is facing today."

In spite of this, Paul Rankin, in the English Journal, reports the average adult spends 70 percent of his time when he is awake in some form of communication. Of this:

42% listening
32% speaking
15% reading
11% writing

Dr. Edgar Dale at The Ohio State University, suggests that communications is like a leaky pipe--what you put into one end does not necessarily come out the other end.

Inherently involved in any communication is the necessity for a communicator. This is the person or group who is attempting to put across or express an idea. Assuming then that there is a communicator with an idea who wishes to communicate it to someone or to a group, he has the technical task of reducing the idea to some kind of a message. This message then has to be transmitted through some medium which may be speaking, writing, acting, etc., but there has to be a medium. Communication by its very nature must also have a receiver or no communication has taken place. For the process of communication to be complete there inherently must be a response.

By taking a little deeper look at the steps in this process, we see, first of all, all of the following steps are always present in any communication.

- The communicator must have the desire to communicate. He must have some idea or message to send to the receiver.
- Messages have content and represent facts, ideas, etc.
- The communicator need not always be a person.

- The communicator in sending a message cannot send meaning. The meaning of the message lies with the receiver.
- The communicator can select from symbols, gestures and objects to represent his message.
- Once the message has been developed it requires some medium to transmit it to the potential receiver. The medium takes many different forms.
- We can receive messages in a number of different ways. One of the five senses will always be involved. Usually the more senses involved in the communication, the more of an impression it will make.

A written message involves only sight. A cooking demonstration would perhaps involve all five senses. That is, we hear the demonstrator describe what is being done and the measurements, etc. We can see the food being prepared as well as what it looks like in its final form. We can smell it, we can touch it, and we can taste it. Television, for example, only involves two of the senses. Generally speaking, the more senses involved in the communication process, the greater the opportunity for eliciting a response.

The receiver in the communication process is an extremely important dimension of communication. Each receiver is different, but has some common attributes with other people. The receiver will practice what we call selective perception. In other words, he will tend to hear what it is he wants to hear or see what it is he wants to see. The message which you wish to communicate in final analysis is interpreted by the receiver in the light of his own experiences.

In view of this, if people think you are a good fellow they will tend to take a positive attitude towards the message you are sending. Thus, they will tend to read between the lines a great many more things than you wish to communicate. On the other hand, if they have a low opinion of you or your department, they will also tend to read between the lines in a negative way. For example, the personnel manager of a large corporation moved into a new community. The existing leadership was elated when this man was willing to accept certain leadership roles within the community. However, as time moved along this particular gentleman failed to fulfill the commitments he had made in various community organizations. He lost the respect of the leadership and more importantly, the members of the community. He was pigeon-holed as a person whom one should avoid in assigning organizational responsibility. Thus, any time his name came up in an organizational meeting or in some way was brought to the forefront, his very presence communicated so many things other than what he was saying that his effectiveness as a communicator in terms of community affairs had almost no effect. As a matter of fact, his participation often had the reverse effect than what was hoped for by well-meaning organizational groups.

The old adage that actions speak louder than words is very appropriate in this example of communication.

Organizations, departments, and individuals also develop reputations; that is, when well thought of individuals speak, people will listen. Again the

opposite is true for individuals or departments which people have low opinions.

The final step in this process is the response. How do people respond? In the case of a conversation, people often respond in many different ways. You get facial expressions, gestures, and of course, frequently a verbal response. If there is no response, there is no communication.

People in organizations respond by writing letters to the boss, by swearing, by striking, by adopting new practices, by supporting management, by voting, by slow-down, and in hundreds of different ways.

Speakers such as foreman, managers, vice-presidents and others also frequently find a unique response to their presentation --such as, a potential receiver sound asleep.

The principle of "least effort" is also a factor in communication. Thus, the more easily available the medium, the more people will expose themselves to it. According to Lazarsfeld and Kendall (The Communication Behavior of the Average American), people with college educations read more than twice as many books and four and one-half times as many magazines as those with only grade school educations.

Dr. William Albig of the University of Illinois, states that college graduates get more than half of their information on public issues from the newspapers while those with only high school educations or less get more than half of their information on public issues from the radio. The point is that people will still tend to take the route of least effort in communication.

To summarize the points on the communications process, remember:

1. The communicator sends only messages, not meaning.
2. In selecting a communication medium the more senses that can be involved in the process, the greater effect the message will likely have.
3. The receiver interprets according to his own experiences. Therefore, messages should be aimed at the level of the receivers experiences, understanding, needs--if it is to elicit any meaningful response.
4. The principle of "least effort."
5. That you cannot separate the communicator from the message.

People often are accused of being apathetic to organizational problems. This is generally not true. People are responsive under appropriate conditions. Some of these conditions are--Conditions for cooperation and communications:

1. People will be cooperative and receptive to communication when there is a catastrophe or people are forced to struggle.
2. People will be cooperative and receptive to communications when they are forced to make a decision on some issue of vital concern to them.

3. People will be cooperative and receptive to communications when a need is made sufficient, apparent and demanding.
4. People will be cooperative and receptive to communications when they acquire a new purpose, a net worth is discovered and when they work to realize the new purpose.
5. People will be cooperative and receptive to communications when they realize their purpose may be attained through other ways than those they have tried.
6. People will be cooperative and receptive to communication when they have a demonstration that the new way is an improvement over the old.
7. People will be receptive to communication when they have confidence in their leaders. (managers, foreman, etc.)

Summary:

Good communication is a tool for reducing conflict and eliciting cooperation. Organizations are like members of the same family, they have individual form, individual personalities, and individual differences. But, as a family member, they are highly interdependent and are stronger, more productive than each individual would be alone. Departments are as interdependent as family members. This point cannot be overly stressed. No department or individual boasts on how much it depends on its sister department or co-worker. They tend instead, to point up their best features and often view themselves as an "island unto themselves." One of our greatest challenges in business organizations is to get managers and employees alike to see the larger picture of what they are a part. With modern communication mediums and techniques this is a must.

Cooperation is the goal of many organizational efforts. Cooperation can be improved by:

1. Leaders who can think broader than their department's own selfish interests.
2. Leadership the employees can respect and trust.
3. Management who can represent employee's needs and interests without always an ulterior motive.

LINE AND STAFF RELATIONSHIPS

Different types and forms of authority relationships exist in different firms. The most common type of authority relationships used in Ohio agribusiness is the Line and Staff Relationship.

"An authority relationship in which the employee in one position can exercise direct command over an employee in another position is called Line Authority. When a superior can exercise direct command over a subordinate he has line authority." ^{1/}

"An authority relationship in which an employee in one position can advise, but not command an employee in another position is called staff authority."

"An employee in a staff position cannot command others, but he is to provide information, advice and recommendations." ^{2/}

Line and staff relationships are determined by relationships and not by activities. A position may be staff in one firm and line in another firm.

It has been said that an easy way to separate line and staff position is to use the classifications of think and act. The function of the line executive is to act. The function of the staff executive is to think.

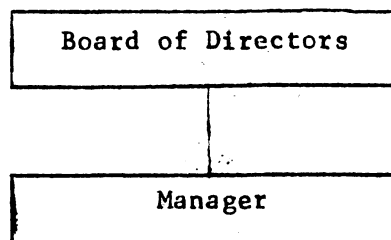
Another classification of line and staff is:

Line personnel are those employees who direct the organization toward its objectives.

Staff personnel are those employees who help line personnel achieve the objectives.

In the beginning of many of Ohio agricultural businesses, the organizational structure was simple. It often consisted of one man who served as manager, bookkeeper, janitor, salesman, etc. (Figure I)

Figure I

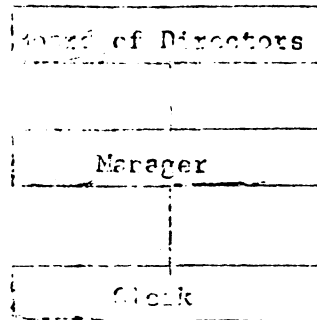


^{1/} Carzo, R. and Yanouzas, J.; Formal Organization, Irwin, 1967, p. 50.

^{2/} Ibid.

As the business grew, the manager found that, at times, it became necessary for him to be away from the business, so he employed a young man to take care of customers during his absence. The firm's organization structure changed. (Figure II)

Figure II



As the business continued to grow, the manager found that it was becoming increasingly difficult for him to keep the firm's bookkeeping up to date. So, he hired a secretary-bookkeeper. The organization now included two employees in addition to the manager. The manager had permitted his first employee to assume managerial functions for the business on a limited basis in his absence.

What is the organizational structure when the secretary-bookkeeper is added? Is it Figure A, Figure B or Figure C?

Figure A

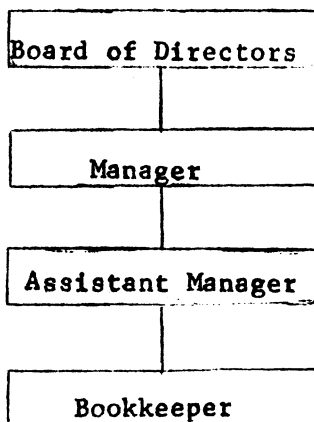


Figure B

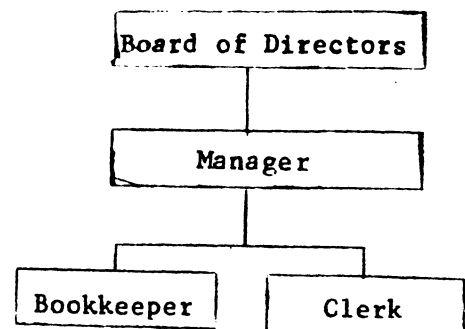


Figure C

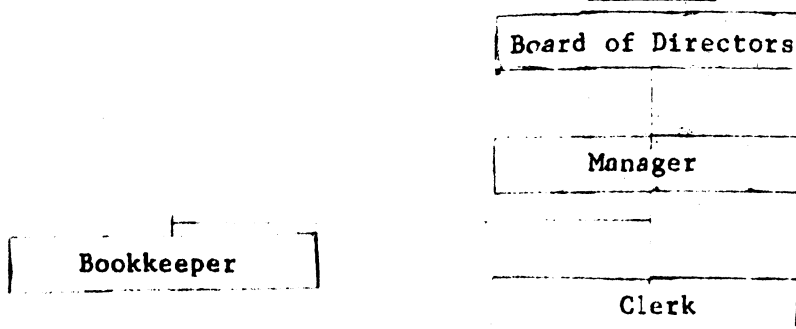


Figure A is a line relationship. The manager can exercise direct command over the Assistant Manager and the Assistant Manager can exercise direct command over the bookkeeper.

Figure B is a line relationship, but the Manager may exercise direct command over both the bookkeeper and the clerk.

Figure C is a line and staff relationship. The bookkeeper is in a staff position and the manager and clerk are in line positions.

Either of the three arrangements will produce satisfactory results if each person involved understands his authority relationship to the others and the authority relationships of the other two individuals to him.

The selection of one of the above structural charts which best serves the firm is dependent upon the answer to this question:

1. Over whom, and for what, does each person have authority?
2. Or, looking upward, to whom and for what is each person responsible?

To help answer these questions, a brief examination of the theory of organizational structure is necessary so that we may better understand the advantages and disadvantages of the various structures.

Let's examine three formal types of organizational structure:

1. Line Structure
2. Functional Structure
3. Line and Staff Structure

Line Structure:

In the pure line organization, each executive has authority over all the activities in his area. He must handle everything that is needed to accomplish the objective of his unit. He is responsible only to his immediate supervisor.

In the pure line structure the employee has undivided authority. He has no specialists to go to for help. He is his own employment manager, sales manager, production manager, etc.

The pure line organizational structure has three major advantages:

1. Each executive is completely responsible for everything in his area.
2. Decisions can be made quickly.
3. It is easy to understand the structure as each person has a line of contact with only one person above him and one person below him.

Functional Structure:

The concept of functional structure was advanced to overcome the disadvantage of the lack of specialists in the line structure. This organizational structure has failed to work every time it has been tried. It is important, however, since it is basic to the line and staff concept.

In pure functional structure:

1. Each executive has authority for only one function
2. Each is responsible to a number of specialists, but to each for only his speciality

This is a difficult structure to illustrate since the lines of authority run from one subordinate to a number of specialists and is even more confusing when in operation.

Line and Staff Structure:

In practice, most firms operate in a dynamic and competitive economy and are faced with many complexities and rapid advances in knowledge and technologies. As the firm grows there is an apparent need for specialists in such areas as legal research, taxes, personnel, etc. Each of these specialists relieve the manager of certain duties and permit him to concentrate his efforts on those activities for which he is most qualified.

The staff group which is expected to serve the line, does not have the right to impose its wishes upon line executives. The staff then has only staff authority. The line remains the avenue for command and performance of the work. The line and staff concept has the advantages of the pure line and pure staff function without the disadvantages of either.

The line and staff concept advantage:

1. Undivided Authority of the line
2. Services of specialists

The disadvantages of the line and staff concept:

1. Line executives may be reluctant to request the services of staff executives
2. Staff executives may attempt to force their ideas upon the line executives

Nature of Line and Staff WorkLine

1. Directs
2. Orders
3. Is responsible for carrying out total activities from beginning to end
4. Follows the chain of command
5. Is identified with the activity performed
6. Acts

Staff

1. Advises
2. Suggests
3. Studies, reports, recommends, but does not carry out total activities
4. May advise across departmental lines
5. May find its ideas identified with others
6. Thinks

Difficulties in Line and Staff Relationships Often Include:

Staff executives don't understand day-to-day problems

Line executives fail to avail themselves of staff advice or assistance

Staff executives deal in theory

Line executives seek help from the wrong staff executives

Staff executives are "change" oriented

Line executives are conservative

Staff executives assume line authority

Line executives call on staff executives after its too late

To maintain harmony between line and staff the manager might consider the following suggestions:

1. Develop a better understanding of the basic authority relationships with the organizational structure.
2. Stress interdependence rather than separation of the various organizational units.

What position is line and what position is staff depends upon the type of authority possessed. Line authority creates a line executive, staff authority creates a staff executive. Line authority gives rise to a line organization. The use of staff authority alters the line organization and makes it a line and staff organization. Line and Staff organization is common in agribusiness firms.

Question:

List the line staff positions in you firm.

TYPES OF ORGANIZATIONAL STRUCTURE 1/ 2/

Using a chart lifted from a book or one used successfully by another firm is one of the most unsuccessful ways to organize a firm.

To attain the benefits of specialization and division of labor, firms should divide work into the simplest tasks. These tasks will then be grouped into administrative units.

Four methods of grouping tasks into administrative units are commonly recognized.

They are:

1. Purpose: According to their end results such as a service or a product
2. Function: According to the nature of the work that must be performed
3. Place: According to where the work is to be performed or the geographic location served
4. Clientele: According to the type of person for whom the work is done 3/

Grouping by Purpose:

Grouping on the basis of purpose requires the classification of activities according to the services or products produced by the firm.

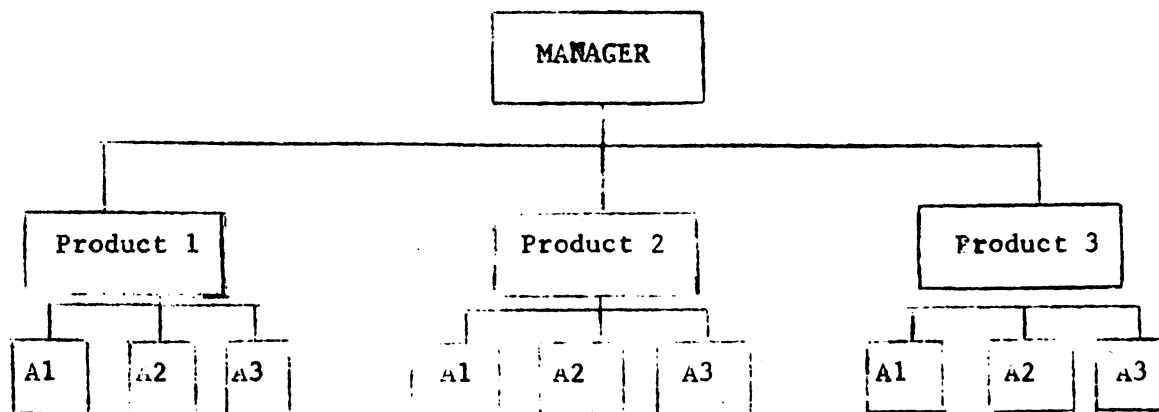
This type of grouping demands that all activities required to produce a particular service or product, even when the activities are dissimilar, be placed in the same group.

1/ Carzo, R. and Yanouzas, J; Formal Organization, Irwin, 1967

2/ Dale, E.; Organization, American Management Association, 1967

3/ Gulick, Luther; Notes on the Theory of Organization, Papers on the Science of Administration, New York Institute of Public Administration, 1937

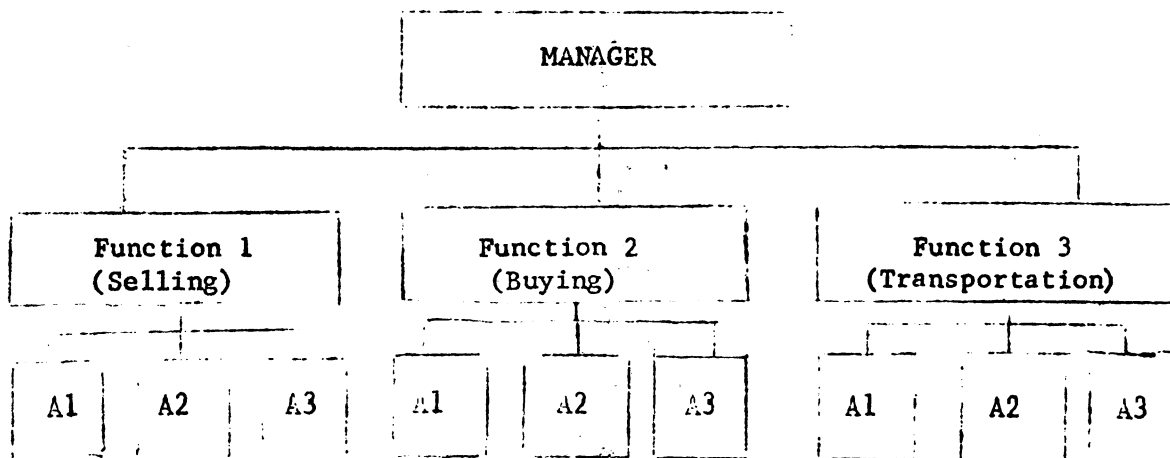
FIGURE I
PURPOSE ORGANIZATION



GROUPING BY FUNCTION

Grouping on the basis of functions requires the classification of activities according to the similarity of their work. Examples are manufacturing, marketing, transporting, etc.

FIGURE II
FUNCTIONAL ORGANIZATIONAL

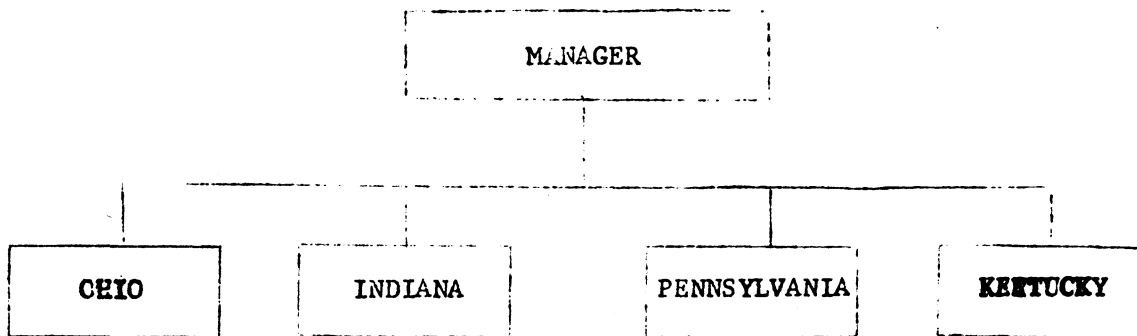


PLACE GROUPING

Grouping on the basis of place requires the classification of activities according to the location where the work is to be performed or by the area to be served.

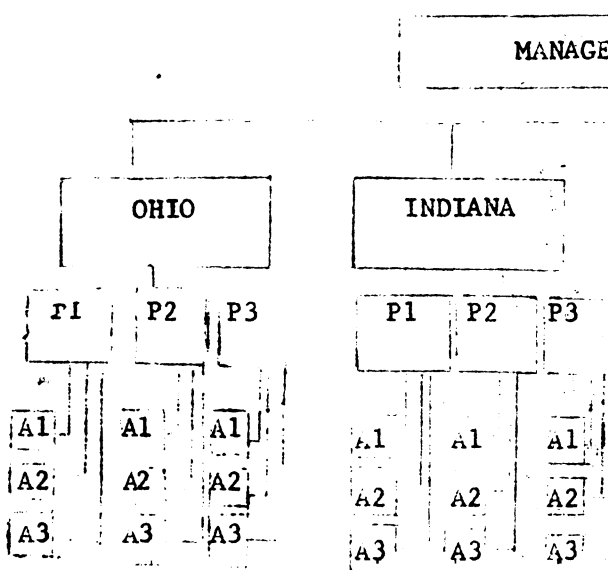
In this grouping only place or geographical areas are given consideration, the similarity or dissimilarity of the activities involved are not considered.

FIGURE III
PLACE ORGANIZATION



Activities may, however, be grouped by purpose and/or function after first being divided or grouped by place or geographic location.

FIGURE IV
PURPOSE ORGANIZATION WITHIN PLACE



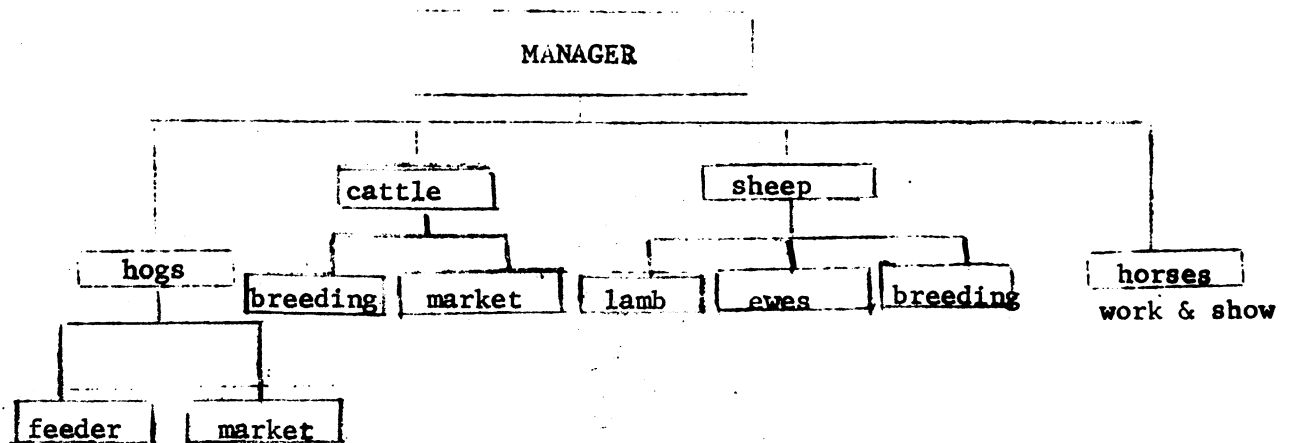
P= Purpose
A= Activity

Clientele Grouping

Grouping on the basis of the client involves the classification of activities by the type of person or persons for whom the work is performed. Classification used may be: customer or type of customer (wholesale or retail), sex, age, type of payment (cash or credit), income level, etc.

FIGURE V

EXAMPLES OF CLIENTELE ORGANIZATION (Clothing)



Summary

The various types of organizational structures are based on specialization of departmentation, unity of command, span of supervision, and allocation of authority. The four types of grouping discussed are not exclusive of each other -- they may be combined.

Dividing work into small units according to some basic classification is the first step in organizing. When the small unit classification of the work is completed the manager can then assign people and designate subordinates and superiors, assign spans of supervision and allocate authority to achieve coordination.

Question:

What does your firm use?

What type of grouping does your firm use?

AUTHORITY - DELEGATION - RESPONSIBILITY

Authority

Authority is a vital consideration in management.

Authority is the right to act, to command, or to require action by others.

Authority may be considered as the power to require others to take action that is considered necessary for the achievement of the objective.

Authority includes the power to make decisions and to see that these decisions are carried out.

Authority is the key to the management position. Managers are required to work through people to reach the objectives of the firm.

"Authority is the right to act or to exact action by others, within a prescribed area." 1/

Two Concepts of Authority

1. The owners of the firm through the board of directors delegate their right of how to use their property to the manager of the firm, the manager in turn delegates portions of this right to his various assistants who in turn delegate to their assistants and so on down to the employee of the lowest level of the firm. Using this approach to authority, the power to exact action by others stems from ownership. An owner or his official representative has the right to make and enforce decisions concerning the use of his own resources.

This concept says: "Ownership includes the right to put property to use and to direct how it is used," an arrangement having both legal and social approval and carried out within the limitations prescribed by law. The performance of management activity therefore rests on the powers inherent in ownership and these powers are ultimately delegated to the manager.

However, in recent years the authority arising from the exercise of private owners rights of using and directing the use of his property have been modified by legal, political, ethical, economical and social consideration.

2. To day the more popular conceptions of authority are that authority comes to the manager by the acceptance of the manager's power to make

1. Terry, G.R.; Office Management and Control, Irwin, Homewood, Illinois, 1966, page 612.

and enforce decisions by his subordinates. In this approach the manager is considered to have no authority until it is conferred upon him by his subordinates. Therefore acceptance by subordinates is the key in this line of explanation and reason. Leadership by the manager, for example, becomes highly significant because the manager's influence depends in a great measure on his ability to win support from his subordinates through such attributes as knowledge of human relations, technical skills, and communicative ability.

The popular conception of the authority today is that the manager should win, not order, the support of his subordinate.

The successful agribusiness manager recognizes that the authority is most effective when it is considered a potential power rather than an essential ingredient of management practice.

Authority is most effective when used sparingly and selectively. Often times the hidden or implied threat of the application of authority is the source of real power to bring about desired behaviors.

Management Authority Has Definite Limits:

1. It must be used in relation to the efforts of the employees necessary to reach the firm's objective or objectives.

Authority must be kept within the accepted plans of the enterprise. The articles of incorporation, the laws in which the firm is incorporated, marketing agreements, bargaining agreements place restrictions on the manager's exercise of authority.

2. It must not require action beyond the capabilities of the employee's capacity to perform.

There are specific limits to authority. A manager cannot decide to enforce an activity which is beyond the capacity either mental or physical of the subordinates to perform.

There are certain social limitations to the use of authority. Activities must be kept within the group's fundamental social belief, codes, creeds and habits. Employers under the present labor laws cannot interfere with the employees right to bargain or not to bargain collectively. Employers cannot interfere with the establishment or the operation of labor unions nor can an employer refuse to bargain collectively with his employees.

In practice the employer is not free to do with his property as he pleases. Society has established guidelines in the form of law that each business must conform to if it is to retain its charter. Property includes such things as machines, tools, and materials. It does not include employees.

Authority relationships may be either:

1. Vertical
2. Horizontal

Vertical Authority Relationships:

These are relationships among employees of different organizational levels and usually involve a supervisor and a subordinate.

Horizontal Authority Relationships:

These are relationships which take place at the same structural level within an organizational structure.

The central part of leadership and management is its right to command the work of others. A manager receives from his board the right to give orders to employees and to expect compliance. The scope of authority must be carefully explained so that each employee knows precisely the limits of each executive's:

- authority in terms of its scope
- over which employees
- for what activities.

It is important that a written description of each executive's position, whether high or low, be prepared and made available to all affected employees.

Authority may be received from above, and it can also be earned from below. The long-run success and personal satisfaction of a manager is likely to be much greater when authority and respect are earned as well as delegated.

Delegation of Authority

Delegation of authority is essential to the existence of an organization. The organizational units require the delegation of authority from the owners, to the board of directors, to the manager, to the individual charged with the performance of a task. Without delegation the owners would be the only management member of the enterprise.

Delegation means conferring authority from one executive or organizational unit to another to accomplish particular assignments.

Delegation does not mean to give away or surrender authority.

A manager delegating always retains his overall authority for the assigned function whether he wishes to or not. Delegation does not mean the permanent release from these obligations but rather the granting of rights and approval for others to operate within prescribed areas.

As a result of delegation, the subordinate receives authority from his superior but at the same time his superior retains all his original authority and accountability.

Going from the top to the bottom of an organizational structure, the delegated authority becomes smaller and smaller with each successive level thus causing a tapering characteristic.

Responsibility:

"Responsibility is the obligation of an individual to carry out assigned activities to the best of his ability." 2/

Responsibility originates when a person with authority needs assistance and delegates authority for performance of a specific task to another individual.

When a person accepts an obligation to do a specific task, responsibility is created.

Responsibility and authority go together.

The organization structure of the firm must show to whom and for what each employee is obligated. The employee's obligations must clearly point out the objectives to be attained, the tasks to be performed, and to whom and for what the employee is responsible.

Responsibility is important to the general or executive manager. All employees of the agribusiness firm are responsible to him. He, in turn, is responsible to the Board of Directors not only for his work, but he is also responsible to the Board of Directors for the work of all the employees of the agribusiness firm. The Board of Directors is, in turn, responsible to the owners of the agribusiness for the work of the manager and all the employees.

"Responsibility is the obligation for carrying out of a duty and what one is accountable for in the execution of an assigned task." 3/

"Responsibility cannot be delegated to others. For example, a manager may delegate authority to accomplish an assignment, but the manager cannot delegate the responsibility with which he has been charged." 4/

2. Terry, G. R.; Principles of Management, Irwin, 1964, page 378.

3. Terry, G. R.; Office Management and Control, op. cit.

4. Manuel, M.; Improving Management of Farmer Cooperatives, FCS, USDA, General Report No. 120, 1964, page 17.

Delegation:

There are three basic reasons for which a manager must delegate authority:

1. He is responsible for more work than he can do himself
2. Delegation is necessary to the development of subordinates
3. Delegation provides management depth or "bench strength".

Delegation is assigning a task originally designated to the manager to a subordinate who is best qualified to complete the task satisfactorily.

Delegation of authority should be given in written form!

Delegation of authority should be written to clarify specifically all relationships in order that all uncertainties will be eliminated.

When preparing a written description of the authority delegated, the delegator must think through the situation and decide what specific assignments are to be made. From the written delegation of authority the person receiving the authority will know specifically in what areas and to what degree he has authority.

Writing descriptions of authority should be added to the organizational manual for future reference.

The advantages that will be derived from written descriptions of authority more than offset the time required to write these.

Managers Must Delegate

The manager who fails to recognize that others can perform tasks as well as he limits his own management growth and development.

Those who manage must delegate authority as the situation requires.

The delegator of the authority always retains the ultimate authority and the ultimate responsibility.

Authority and responsibility must be assigned to an employee simultaneously and in equal amounts.

A manager may assign certain duties or tasks to an employee -- directing the employee to do them is authority. The employee's acceptance of the obligation to perform the task creates the employee's responsibility for the satisfactory completion of the task.

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When an employee is delegated a task he has an obligation to the delegator to perform the task satisfactorily -- the employee has the responsibility. Equal to this responsibility, the employee has authority to perform the activities necessary to complete the task.

An employee delegated responsibility for specific results must be given sufficient authority to achieve them.

"A manager cannot hold an employee or a group of employees accountable for any task or tasks unless he has given him or them sufficient authority to perform all the activities necessary to satisfactorily complete the task." 5/

A Manager Should Delegate:

1. All those tasks that an employee of the firm can do as well or better than he.
2. Those tasks he does not have time to do well.
3. Those tasks a subordinate cannot do as well as he, but his doing it interferes with more important tasks.
4. When it costs too much for his time to perform these tasks.
5. When he wants to develop his employees.

A Manager Should Not Delegate:

1. When it is confidential.
2. When he cannot keep control by delegating.

Questions:

Do you always delegate authority and give responsibility in equal amounts?

Are you always delegated authority and given responsibility in equal amounts?

HUMAN NEEDS

Few people are ever fired from a job because of incompetence. Most people are fired because they cannot get along well with the people with whom they have to work. People who do not get along well are often maladjusted in the work situation. A person whose needs are not being met usually are those who become maladjusted. They feel insecure or feel they are not achieving at a satisfactory level. Organizations have needs - people have needs.

The firm's needs can be met only by people. In order for the firm's needs to be met, people in some way have to have their needs satisfied at an acceptable level. What are man's needs in relationship to his work?

Man is first of all a biological organism. As such he has a number of biological and physical needs to be fulfilled. Not all of these need to be met through his work. However, his work is often related. Man's physical needs can be summed up as follows:

- a. hunger
- b. thirst
- c. sensitivity to temperature
- d. fatigue or sleep
- e. sex
- f. pain avoidance
- g. need for air
- h. elimination

These biological or physical needs are often suggested as man's survival needs. However, we know that the culture in which one is trying to survive determines to a large extent how, when, and where the needs will be met. Meeting one's basic needs in an American business organization may be quite different than in a middle eastern nomad tribe.

Man is also a social animal. As such he has certain basic social needs. One of these is the need for belonging. Inherent within this need for belonging is the idea that man needs friendship, group identification, and likes to help others as well as being helped. He likes team work if it is truly a team effort.

A second social need is the need for recognition. Man likes recognition from his supervisors, from his peers, as well as from his subordinates. He wishes to be held in high esteem with those with whom he works. He likes to be treated fairly in his relationship and wants to be praised for a job well done. He also likes to know where he stands in relationship to others in the organizational structure. He wants to know whether he is doing well or whether he is doing poorly. Nothing is more frustrating than not to know where one is relative to others in the organization.

Thirdly, it appears inherent in man that he needs new experiences. The need for new experiences would of course vary with the individual depending principally on his past experiences. Man needs to be challenged and routine work often becomes disturbingly unchallenging.

A fourth social need is termed security. Security is often only a state of mind. Nevertheless, if a person feels insecure relative to the performance of his job or the relationships with his peers, he will not likely be as productive. Rumors are often the insecurity builders in organizations.

A third area of needs are identified as psychic or individual needs. First of all, man needs to be recognized as an individual. He doesn't mind working on a team but he wants to be recognized as an individual member of the team. As a sidelight to this notion, remember that no new idea was ever generated outside of an individual mind. Teams develop ideas that individuals initiate but the original idea occurred in the mind of one man. A second psychic need is the need for the individual to acquire knowledge. That is a man wishes to know about his environment, about the people with whom he works or has contact. Man wants to know the reason for what it is he is suppose to do.

Finally, the personal need of achievement and accomplishment should be noted. The pride that comes from a team effort usually is viewed by the individual in terms of his contribution to the effort. Achievement is a basic value in the American society. As such, most of us have been socialized to want to achieve. Achievement is often measured in monetary terms. However, money (wages) is important relative to what other people are making. Although the wages one receives might adequately meet his current needs, if someone with equal experience and training is making more money, dis-satisfaction automatically occurs. This is perhaps because money becomes related to one's achievement motivation, and to one's desire for fair and equal treatment. Studies reported in Sayles and Strauss concerning people who want to leave their job, only fifty percent want to leave for money reasons.¹

Questions: What are the cues or signs that we can look for to determine to what extent human needs are being met in my organization? Once we have recognized the signs of discontent, the solution will be much more apparent if we are aware of the basic difficulties that are causing the discontent.

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¹L. R. Sayles and George Strauss, Human Behavior in Organizations, Prentice-Hall, 1966, p. 19.

SELECTING AND COACHING EMPLOYEES

In selecting a new employee for an organization, several questions immediately become appropriate. What is the new employee to do? What job skills are involved? Are manipulative skills needed? How about communicative or supervisory skills? These questions suggest the importance of a job description defining the duties to be performed in this position and the qualifications required to execute these tasks.

Most firms adopt a standard application form to get the initial information from prospective employees. There is nothing complicated or mystifying about an application form. Application forms are simply a time saving, impersonal device to secure basic information about the applicants. In essence, an application form should find out what an employer wants to know about the individual. Information from the application can serve as the basic information for starting a personnel file on the individual in the event he is hired.

Sources of information regarding the individual may be viewed as a continuum. Obviously personal knowledge about an applicant such as a family member or a long time acquaintance would be at one extreme end of the continuum. One's own personal knowledges and impressions would be the most accurate basis for making a decision.

Information from trusted references concerning a person whom the employer has heard about would be next in order of importance. Unknown references about an unknown person would be the least desirable situation. However, in more densely populated areas, this is frequently the case. References should always be followed up. A little time and money invested at this stage can pay huge dividends. To check a reference, a personal contact is the most desirable, with a telephone contact being more advantageous than a letter.

Assistance in screening applicants is widely available in Ohio. The state employment service can give assistance in testing, interviewing, evaluating and referring potential employees. These services are also available at a nominal cost from private firms.

Batteries of various types of tests are used to test the attitudes and skills of employment seekers. These tests in the hand of a professional tester can be extremely valuable in selecting the right person for a job. In the hand of the unskilled, tests can be misleading and impair judgement rather than be of assistance.

The personal interview should be structured around finding out what it is you want to know about the person, his skills and background. Interviewing is different from counseling. In an interview, the employer wants to know the answers. Often in counseling, the counselor helps someone else to find a solution to a problem.

Assuming the applicant has been employed and has been properly oriented to his position, he goes to work. Follow-up is extremely important. The supervisor or an appropriate firm counselor should establish a regular personal counseling program to help the individual solve problems that often arise in most work situations.

A counselor is not an advice giver. A counselor helps an individual to find solutions to "his" problems. It is usually not the counselor problem and if the new employee needs advice, he can get it from almost any source by asking for it. Often he gets it without asking.

A counselor essentially performs two functions. He listens and he asks questions. Listening and asking questions is a habit that effective counselors develop. A habit is an acquired tendency to act in a specific way which usually becomes unconscious and automatic. To change a habit requires conscious effort.

To become an effective listener requires that many people change their habits. A good supervisor or manager is a good listener. Several advantages of being a good listener are stated below.¹

1. Listening can reduce tension.
2. You can learn by listening.
3. Listening can win friends.
4. Listening may solve the problem for the other person.
5. Listening helps solve mutual problems and resolve disagreements.
6. Listening leads to better work and cooperation from others.
7. Listening can stimulate the speaker.
8. Listening helps you make better decisions.
9. Listening can help you do a better job.
10. Listening can help you sell.
11. Listening can prevent trouble.
12. Listening can give you confidence.
13. Listening can increase your enjoyment.
14. Listening can give you time to think.

When listening to others:

1. Stop talking.
2. Try to put yourself in the other person's place.
3. Ask questions when you don't understand.
4. Don't give up too soon.
5. Concentrate on what he is saying.
6. Look at the other person.
7. Control your anger.
8. Get the main points.
9. Share responsibility for communication.
10. React to ideas, not to the person.
11. Don't argue mentally.

¹Adapted from materials distributed by the Federal Extension Service.

12. Use the difference in rate.
13. Listen for what is not said.
14. Listen to how something is said.
15. Avoid jumping to assumptions.
16. Avoid classifying the speaker.
17. Recognize your own prejudice.
18. Evaluate facts and evidence.

As previously mentioned, asking questions is a major function of counseling. Many of the following ideas were adapted from materials prepared by the staff of the Illinois Cooperative Extension Service.

Why do we ask questions in a counseling situation?

1. To help the other person diagnose his own problem.
2. To help the other person discover his own need for information or assistance.
3. To shift the responsibility for problem-solving to his shoulders.
4. To discover what progress he has made already toward the solution of the problem.
5. To encourage him to think.
6. To encourage him to become more independent of help.
7. To help him distinguish between symptoms and the real causes.
8. To help him discover the importance of the problem and the need for immediate remedial steps.
9. To help him discover the possible effects of the plan of action he is considering.
10. To help him plan how to put the proposed solution into operation.
11. To encourage him to consider alternative courses of action.
12. To help him prepare for possible failure of his plans.
13. To help him feel that he is able and successful, regardless of what happens in this particular problem.
14. To help him recognize the moral issues involved in the problem.
15. To end an interview.
16. Others.

Asking questions.

1. Start the questioning with friendly and easily answered questions.
2. Plan some of the questions you want to ask before the meeting.
3. Know what you want your question to achieve. Are you asking for or giving information; asking a favor or doing one?
4. If you want to draw the other person out, reflect his emotional content, "So you think your situation is hopeless?"
5. Get a sense of partnership when trying to get facts involving a person's behavior.
6. If trying to get the person to talk, avoid questions that solicit a "yes" or "no" answer.
7. Statements can also be effective as questioning devices; i.e., "Tell me about. . ."
8. To get personal or difficult information, try the simple trick of overstatement. People like to correct a mistake.

9. Avoid getting too personal in your questioning.
10. Don't ask questions that you are fairly certain the other person won't be able to answer.
11. Be sure to couch your questions in terms he can understand.
12. Allow the person time to think before answering your question. Don't rush him.
13. Allow the person enough time to answer your question after he once starts talking.
14. Don't interrupt to ask a question unless it is absolutely necessary.
15. Avoid leading the person away from his train of thought by your questioning.
16. Don't appear to be cross-examining him.
17. Avoid asking questions just to show off your knowledge.
18. Avoid setting up antagonistic alternatives in your question or questioning statement, "Either cool down or get out of here."
19. If asking for help, ask the assistance not as a favor to you, but in terms of the other person's self-interest.
20. The way you ask a question is as important as what you ask.
21. The person who is afraid to ask questions learns little.
22. Your questions can win or lose respect and friendship for you or your organization.

Answering questions.

1. Repeat the question asked if you don't understand it.
2. Don't read meanings into the questions that aren't really there.
3. Ask a question in return when you want clarification of the meaning or intent of the original question.
4. Reverse the question if you sincerely think that he should accept the responsibility for deciding upon an answer.
5. Answer briefly and to the point.
6. Don't talk and talk and talk...and still not answer the question.
7. Telling the truth will make for increased trust in you in the future.
8. Be frank in your reply, but also be tactful.
9. Tell the person what he wants to know--not what you want him to know.
10. If the question involves a complaint, accept it.
11. If the answer involves your viewpoint, indicate that it is your personal opinion.
12. Don't ignore the question...do something with it.
13. If you must disagree, do so with dignity.
14. Avoid overuse of the personal pronoun.
15. Don't make the questioner feel that he has asked a foolish question.
16. If you are counseling, don't show too much sympathy.
17. If you are counseling, don't use too much authority.
18. Avoid passing the buck.
19. Say "I don't know" if you cannot supply an answer. **DON'T BLUFF.**
20. If you don't know the answer, tell person you will try to find it for him, or refer him to the appropriate source.

Questions:

Does your company have a policy of advice giving or counseling?
 What are the advantages and disadvantages of the two approaches to employer-employee relationships?

Informal Organizations

All formal organizations have to some degree a set of goals, policies, procedures, rules, and regulations that describe to some degree what different members of the organization should do.

The formal organizations' structures cannot be maintained over time without the existence of an informal organization.

No organizational goals, policies, or rules can be explicit enough to cover all situations that will arise in carrying out the activities of the business firm. Therefore, because the business organization is operated by people, informal relationships will develop. Closely associated with this first principle is the notion that the larger and more complex the business organization, the more informal relationships that will develop. A classic example illustrating these principles is a situation you may have read about in the newspaper.

The English Post Office system is a formal organization. But as all formal organizations whether it provides a service or is a production unit it develops informal systems in order to carry out the tasks to be performed. The employees of the English Post Office system were in dispute with the government and their managing system over wages. Since they were not in a position to strike as in many business units, they decided to operate the Post Office by the formal rules set forth in their postal employees handbook.

The postal employees handbook describes the exact process in sorting mail. For example, you take a packet of letters that will fit comfortably into your left hand (if you are right handed), then you look at the bottom line of the address as the first step. If the piece of mail has correctly been forwarded to the appropriate post office, then you look at the street address and place it in the appropriate mail carriers box. You repeat this process until each letter has been appropriately distributed.

By explicitly following the rules set forth in the manual the postal employees were able to "bog down" the total mail system in England within two days. The fact that they had not gone outside the rules of the organization made it extremely difficult to bring any pressure to bear to control the activities of the employees.

The point in this discussion is that every formal organization that has existed for any period of time has many informal relationships and groups that develop outside of the formal organization. In most cases, this procedure is good. These informal organizations help to make the formal organizations function properly.

To further illustrate: Two years ago during the peak of their production season a small farm that produced specialized agricultural equipment, had a fire that destroyed the entire office unit of the

company. The production unit was left intact but orders for supplies, orders from customers, etc. were destroyed. Because of the effective informal relationships of the purchasing and supply agent with other members of the office force, he provided his home as the temporary office for the company. Office equipment was borrowed from churches, schools, other businesses who could loan a piece of equipment until new orders could be placed and delivery made. The office force which involved only about 20 people were willing to work far beyond their regular hours to reconfirm orders and to reorganize the firms business system. Not one sale or one production unit was lost because of the rather disasterous fire.

This esprit de corps came about because of an effective informal organization that was supportive of the formal organization.

Behavior patterns in the informal organization is as patterned as behavior patterns associated with the formal organization. It has a leadership structure which is often as effective as the formal leadership structure (sometimes more so). It has rules of conduct for the members as well. For example, a study by Roethlisberger and Dickson of the Western Electric Hawthorne work in Chicago found that management had established a normal days output as 6,600 wiring connections. The employees on the other hand considered 6,000 as a reasonable days work. The rules of the informal group suggested that you should not turn out too much work or by the same token too little work. If you turned out too much work you were a "rate buster" and if you turned out too little work you were a "chisler." These rules are enforced by ridicule, gossip, and shunning. Another rule is that you do not squeal on a fellow employee. These are only examples of the informal rules that develop.

When the two sets of rules coincide, a harmonious relationship usually exists.

The informal organization can either work for you or against you. But so can the formal organization. The English Post Office example illustrates this point.

Formal organizations sometime develop what Robert Merton calls the rigid bureaucratic personality. This type of personality is likely to emerge in organizations that have been in existence for some time. In most cases they are a detriment to the management and to the efficiency of the organizations. There are a good many of them around in various businesses and organizations today.

The rigid bureaucratic personality is the person you meet where your problem does not coincide precisely to a situation that has previously come up. This rigid bureaucratic personality will dig out the company policy book and look for the rule that covers the situation. If he cannot find the policy to cover the precise situation, he says it cannot be done. If you insist something be done about it, he will have you fill out form 409 and it will be submitted through the following channels of the organization for a decision.

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Many good companies and many good customers are lost because the bureaucratic personality is unwilling to bend their "rules" slightly or to go out of his way to accomodate a customer.

A good manager recognizes these characteristics. The rigid bureaucratic personality type should not be in contact with customers. The formal organizational system usually develops this type of personality. An employee finds himself in the position of having to make a decision, he makes it and if it does not coincide one hundred percent with the decision his superior would have made, he is often berated and criticized for the decision he has made. After this happens a few times, he says the heck with the goals of the organizations and he whips out his manual. If the situation is not covered, he follows the suggested procedure to the maximum. He find then that his superior has no grounds for berating or criticizing. So he has found a good safe way to make decisions. The longer is he in the position the more he uses the "rules," and the more rigid his personality becomes--often at the disadvantage of the company.

A good manager will recognize the existence of the informal organization, try to understand it and try to work with it in a way that will produce the best results for the organization.

Question:

What are the more important informal organizational structures in your firm.

DEVELOP TRAINEES IN MANAGERIAL ABILITY

1. Learning on the job
2. Observation posts (asst. to)
3. Special assignment
4. Study of cooperative principles
5. Lectures
6. Problem solving
7. Coaching
8. Counseling
9. Planned special reading
10. Study courses
11. Conferences and seminars
12. Teaching machines
13. Business games
14. Committees
15. Board meetings
16. Job rotation
17. University management development program
18. Professional association membership

1. Can he effectively direct the work of others?
2. Can he inspire teamwork in the people with whom he works?
3. Does he communicate clearly and effectively to persons with whom he works?
4. Does he consider the position of cooperative management one of teamwork, consisting of members, directors and the manager?
5. Can he state problems clearly and concisely?
6. Is he alert mentally?
7. Does he have foresight? What does he see as the future of your cooperative?
8. Can he admit mistakes?

GUIDES FOR MANAGEMENT DEVELOPMENT

1. Encouragement and support is given to program by top managers.
2. Major aim is perpetuation of the cooperative.
3. No program develops a management trainee -- he develops himself.
4. Emphasize improving operations -- not improving individuals.
5. View trainee performance appraisal as a part of program planning.
6. Development efforts should be permitted to run their planned course.
7. Direct efforts toward developing a generalist, not a specialist.
8. Give regard to manager's multi-problem demands.
9. Develop several trainees.
10. Management development should be considered a continuous process.
11. Develop listenership of trainees.
12. Handle promotion promises discreetly.
13. Provide for trainee to apply immediately what he has learned.

MANAGERIAL AUTHORITY

The corporation status of an agribusiness firm stems from a charter which is a document issued by a state authorizing the formation of a corporation. The owners of the corporation are called stockholders, shareholders or members.

"A Board of Directors is a governing body of an agribusiness legally created by the laws of the state and the corporate papers of the organization and by these legal documents it is given the authority to exercise the power of the corporation, limited only by any condition set forth in the corporation's by-laws. It is by means of this charter, as stipulated in the state statutes called Corporation Laws, that the corporation comes into existence."

"The ultimate authority for management, of a corporate business, cooperative or general, rests with the owners or stockholders. The owners or stockholders select and elect members of a Board of Directors. From the viewpoint of the law, the Board of Directors are the real head of a corporation, and occupy a position between the stockholders and hired management."

"The Board of Directors is not only charged with the responsibility for exercising all the authority of the corporation; its management, the safeguarding of its assets and the conduct of its business, but the Board of Directors is, in fact, the only ones in whom this authority is vested."

The Board of Directors, acting as a group, is the only body of persons who can lawfully conduct and manage the corporation.

"In fact, it is the abilities of the men who make up the Board of Directors that is the real decisive factor in the growth and accomplishments of any firm."

"It must always be remembered that the Board of Directors' decisions are group decisions. The Board is a group; it acts jointly as a Board; it never acts as an individual. Opinions and actions result from the contributions from all the persons making up the Board. Therefore, the selection of persons to serve on the Board of Directors is an important decision for the owners of the corporation."

"The action of any Board of Directors is conditioned by the background, experience, knowledge and attitude of its collective membership. The awareness on the part of the owners of the corporation, of the obligation or trust which the Board of Directors has is of foremost importance."

"Ideally, a Board member's position is one of trusteeship in watching over the assets of the corporation for the benefit of its

stockholders. It is necessary that each director have knowledge of the corporation's business, its opportunities, its limitations and conditions affecting its operations.

"Many corporations select directors who possess certain managerial skills, such as finance, law judgment, etc. The Cooperative Marketing Act of Ohio requires that the directors of cooperatives organized under this Act be farmer members of the cooperative; however, it does provide for some directors-at-large."^{1/}

Directors' Duties:

"It is difficult to define all the duties of the Board of Directors. In general, it can be said that members of the Board of Directors are individually and collectively under a continuing obligation to exercise their best judgment and apply such knowledge and experience as they have in the conduct and management of the cooperative's business. They must use good faith and exercise the care which is commonly exercised by an ordinarily careful and prudent man under similar conditions. They must have in mind that they are trustees charged with the responsibility of dealing with the rights and properties of others. Many Directors of Cooperatives say that the biggest challenge to a member of a Board of Directors is that they have the responsibility of making decisions that are not based on their own individual interests, but on the total combined interests of all the members or stockholders of the association. As trustees, for the shareholders and members of their cooperative association, they must not take advantage of their position as director to gain profit or benefit for themselves at the expense of the corporation. They must receive remuneration for the time they actually spend as officers or directors in service to the cooperative and for their services as members of the executive committee.

"As individuals, the members of the Board of Directors have no authority to act for, or bind the corporation, unless they are duly elected or appointed to do so in a legal meeting of the Board of Directors.

"Directors must use care in directing its affairs to keep within the powers conferred upon them by the corporation's charter, by-laws, marketing contracts, if any, and laws of the State of Ohio. If the directors exceed their authority, neglect their responsibilities or act in violation of the provisions of the statute, their charter, by-laws or marketing contracts, legal liability results.

"Although the directors of a cooperative association occupy positions of trust, responsibility and liability, they are not insurers of the success of the association."^{2/}

^{1/} Ingraham, Charles H.; Cooperative Director Training, OSU, 1967, p. 3

^{2/} Ibid., pg. 10

Directors discharge their duties in two ways:

1. They handle their duties directly as a Board. They deliberate, make decisions and give instructions as a unit--not as individuals.
2. They delegate duties to a competent manager.^{3/}

An Advisory Board has only those responsibilities specified in the by-laws.

Managers must know their own managerial responsibilities and also be familiar with the managerial responsibilities of the Board of Directors.

The manager must have certain definite management responsibilities. The following list is suggested as those responsibilities a Board of Directors should delegate to a manager.

1. Direct Business Activities:

This may appear to be contradictory since one may assume all directing is done by directors. However, the Board does not direct in this sense. Hired management direct when they regulate operations of the business and the conduct of other employees. They also direct when they guide, instruct, and give orders. A manager, for example, directs a firm much as a conductor directs an orchestra. He is in charge of specific and detailed operations of the organization.

2. Set Goals and Make Short-range Plans:

The manager's responsibility also includes setting goals and making plans. Steps must be taken to carry out general policies that have been laid down by the Board. In turn, a manager finds it necessary to set goals and to make his own plans for achieving established objectives.

3. Organize and Coordinate Subordinates and Activities:

The manager is chiefly responsible for the internal organization of the business activity. A logical structure must be developed as a framework for performing functions of the association. It is the manager's task to develop that structure and to relate employees to appropriate assignments within the structure.

Since organizational structure is closely related to goals and policies that are the board's responsibility, the manager must work closely with the board in this area. However, the manager must take the initiative.

^{3/} Manuel, M.; Improving Management of Farmer Cooperatives, FCS, USDA, General Report No. 20, 1964, p. 13.

4. Control:

The manager's job includes responsibilities of control. These may be divided into two kinds: (a) Controls to carry out instructions of the board, and (b) controls initiated on his own behalf.

The manager will do such things as make forecasts, analyze alternatives, make decisions, and initiate plans based upon those decisions. He will need controls to determine the accuracy of his forecasts and to see if his plans are working satisfactorily.

An essential part of employing controls is having the information needed to make them effective. The manager and his chief assistants must have a thorough understanding of all problems facing the firm and possible alternatives for solving them.

In addition, they must have detailed information about the level of performance being achieved in all areas of operation. Only by having a full understanding of the overall business can they use controls effectively to check results and to make improvements.

5. Staff the Firm:

The manager's position carries with it a major staffing responsibility. Some staffing may be done in cooperation with the Board; other staffing might be done working jointly with subordinates.

Rules for Dividing Board and Hired Management Responsibility:

The previous section cited responsibilities for each component of the management team of the firm. Those characteristically assumed by each party were included in standard situations.

Of course, in many situations exact divisions of responsibility cannot be made. Differences of opinion do exist on how they should be shared. A manager's responsibility in a given firm will also vary, depending upon local circumstances and upon the abilities and personalities involved.

Employee responsibility, in a management sense, may be defined as the obligation thorough knowledge and understanding of all problems facing the firm and possible alternatives for solving them.

Employee responsibility, in a management sense, may be defined as the obligation of a subordinate to perform his duties. It denotes a relationship between one in authority and a subordinate. In essence, responsibility means obligation.

Responsibility cannot be delegated to others. For example, a manager may delegate authority to accomplish an assignment to a subordinate, but the manager cannot delegate the responsibility with which he has been charged. Our concern is to identify responsibility.

Some general rules to determine areas of responsibility appear here, not as absolutes, but as guides. Experience has shown that many questions about responsibility can arise between the Board of Directors and the Manager. Therefore, the rules discussed here pertain to the division of responsibility between the manager and the Board of Directors.

1. Time-period rule:

Some management decisions are made to handle matters for a short period of time, while others may be for a long period. The length of time is useful to determine areas of responsibility in firm management.

Long-run decisions are always made by the Board of Directors. Examples are setting the firm's objectives, making long-range plans, and establishing basic policies that are expected to prevail for several years. Making commitments which will require added facilities and staff also is the Board's responsibility. Changing the financial structure is another example. Each one of these decisions is characterized by its long-run nature.

2. Idea VS. Action Decision Rule:

Often decisions can be classified as those dealing with ideas or those involving actions. An idea may be defined as a mental picture of something desired, proposed or planned -- a contemplated performance. When dealing with idea decisions, one makes proposals, formulates plans, estimates probable outcome. Such activities involve ideas and not actions and are clearly the obligation of the Board of Directors.

The Manager gets into action decisions when it comes to putting idea decisions into action. Making action decisions is the responsibility of the manager.

3. Trusteeship Rule:

Directors are trustees, elected to act on behalf of the interests of the members. Basic decisions to safeguard property of members and to insure its use for purposes intended are trusteeship decisions and clearly are the responsibility of the Board of Directors.

Therefore, the Board must do such things as establish effective controls, arrange for an external audit, and determine (within limits authorized by the organization's papers and statutes) how the firm's savings will be distributed. The Board may delegate some of its authority to the manager when carrying out its trusteeship, but it cannot shift its basic responsibility.

For example, the Board may give the manager authority to purchase and keep in force insurance coverage on association property. Here it would delegate its authority, but not its responsibility for maintaining and safeguarding property.

4. Control Rule:

Often questions arise about the nature of responsibility for carrying out control functions. Since the manager as well as the Board of Directors is involved in control activities, some division of responsibility is essential.

Control activities may be divided into two kinds, primary and secondary. Primary controls are those dealing with long-range activities or those involving items of a trusteeship. They include controls over the manager, long-run policies, long-range financial commitments and controls for overall performance of the firm.

Secondary controls have to do with the short-run operational aspects of the firm. These include control over subordinate managers (such as department heads) and employees; production, marketing, and procurement activities; and office procedures.

The Board of Directors must be responsible for primary controls while the Manager must assume responsibility for secondary ones. Classifying these controls into primary and secondary groups as defined should be helpful for determining responsibility over control matters.

5. Staffing Rules:

Two seemingly obvious, but definite points regarding staffing are:

1. The manager is employed by the Board of Directors.
2. Employees having no management responsibilities are hired by the manager.

However, an understanding needs to be reached for staffing many positions in the typical firm.

Authority for staffing must be vested in the person or group having responsibility for the work to be performed. When responsibilities are closely related, staffing should be assumed as a joint responsibility.

Efficient Management:

Several conditions must be met for the agribusiness to have effective and efficient management.

First, each element of the firm's management team must understand the nature and extent of management responsibilities for all members of the team.

Second, each must do his share, yet not infringe on the rights and duties of the others.

Third, when questions of management responsibility arise, those involved should discuss them openly and seek to arrive at logical divisions of responsibility.

Once made, decisions should be recorded and made available to all concerned.

Questions:

What guidelines to you use in your firm to designate board and hired management responsibility?

APPENDIX I

Worksheet 1: Evaluating Management of an Agribusiness

Key Questions to ask:	1	2	3
<u>Organizing</u>			
1. Is there a clear-cut organization plan relating personnel and facilities consistent with tasks to be accomplished?			
2. Are there detailed job descriptions for executives and supervisors making clear their responsibilities, authority, and relationships?			
3. Are the functions, authority, and relationships of the various functional units clearly established?			
4. Are qualified persons selected against position requirements and properly assigned in the organization and adequately paid?			
5. Are personnel requirements for key positions projected far enough ahead (3 to 5 years), and are qualified replacements available as needed?			
<u>Management Team</u>			
1. Does the corporate structure clearly indicate the ultimate source of authority and the respective responsibilities of board of directors and hired management?			
2. Are the respective functions and responsibilities of board and management clearly distinguished?			
3. Is the manager free to make recommendations to the board according to his best judgment?			
4. Does the manager present matters, including regular reports, to the board in the most effective form for their consideration and decision?			
5. Does the board delegate responsibility and corresponding authority to the manager?			
6. Does the board let the manager take appropriate action in selecting, directing, disciplining, or releasing staff members?			

Management Team (cont'd.)

	1	2	3
7. Does the board support the manager appropriately when he functions within established policies?			
8. Does the management team devote attention to member and public relations and promote programs for improving them?			
9. Do all parts of the management team recognize their responsibility for continuously seeking to improve themselves to do their jobs?			

Legend: 1--good, no improvement needed; 2--fair, some improvement needed; and 3--poor or lacking, much improvement needed.

APPENDIX II

Ten Tests of Organization and Staffing

How satisfactorily, in your opinion, are the principles of sound organization and staffing carried out in your organization? The column on the right gives you ratings to test your performance: 1 for outstanding--exceptionally good; 2 for satisfactory--no improvement needed; 3 for fairly satisfactory--some improvement needed; 4 for weak--considerable improvement needed; and 5 for lacking--much improvement needed.

		Our Performance				
		5	4	3	2	1
1.	Accountability. Is each department organized around the achievement of a major objective for which a single executive is held finally responsible and accountable in conformity with definite standards?					
2.	Authority. Is there a clear line of formal authority running from the top to the bottom of the organization? Does everyone know exactly to whom he reports, what he is accountable for, and what standards he is required to meet?					
3.	Progression. Do all positions within each department, and the company as a whole, provide a natural ladder of progression and increasing scope so related in sequence of difficulty that at all times employees are in training for advancements as vacancies occur?					
4.	Relationships. Have all functional responsibilities, relationships, and authorities been clarified? Are lines of command, sources of advice, and channels of communication definite and clear-cut?					
5.	Effectiveness. Does the Organization Structure (pattern) create a climate that encourages maximum executive performance, effectiveness and accountability?					

Ten Tests of Organization and Staffing (cont'd):

		Our Performance				
		5	4	3	2	1
6.	Duties and Responsibilities. Are the objectives of each organizational unit and the duties and responsibilities of every position within the organization prescribed in writing?					
7.	Qualification Requirements. Have qualifications standards for each position been prescribed in terms of specific knowledge, skills, and personal qualities required? How effectively are they being used for the selection and promotion of qualified employees?					
8.	Compensation. Have compensations standards been prescribed in terms of position classifications, grades, and adequate pay ranges applicable to every position in the organization? How effectively are they being administered?					
9.	Utilization. Is each executive and supervisor held finally responsible for the selection, compensation, development, productivity, and morale of all persons who report to him? For the maximum utilization of the highest abilities, skills, and interests of each employee within his jurisdiction?					
10.	Performance Appraisals. Is a systematic program of periodic appraisals of executive performance at all levels carried out effectively? Does top management require and use adequate analyses of the results of such appraisals?					